

The Thomas Tax Cuts are Tremendously Skewed to the Affluent

The new Bill Thomas \$550 billion tax plan is tremendously skewed to the affluent. That's because the plan favors dividend and capital gain income.

The Thomas plan is the gift that keeps giving for the affluent, but not for the middle class. The middle-class oriented tax breaks (e.g., greater child credit, wider 10% tax-rate bracket, and marriage relief) expire after only three years, but not the tax breaks for dividends and capital gains, and the cut in the top tax rate from 38.6% to 35%.

- While the income and payroll tax rates on an extra dollar of ordinary wages typically add to 30% (15% each), and stay that way under the Thomas plan, the maximum tax rates on capital gains and dividends goes down to only 15% – half as much. This is another big step on the road to changing the income tax into a tax on only wages, while continuing to “double tax” wages under both the income and the payroll taxes.
- For a taxpayer with a new top regular income tax rate of 35%, the Thomas plan limits the tax rate on capital gains and dividends to only 15% (i.e., to 15%). This means that 57% of capital gains and dividends are tax-free, but for ordinary households, 100% of wages continues to be taxed under both the income tax and the payroll tax.

Distribution of Tax-Cut Benefits

(Source: The Brookings/Urban Institutes' Tax Policy Center)

- For tax-year 2003, the average tax cut for those with incomes of one million or more will be \$106,000. For households with incomes between \$40,000 and \$50,000, the tax cut is only \$456. For the millionaires, this like a “bonus” equal to 5 % of their take-home income, almost five times as much as for the middle-class group that gets a 1.1% increase in after-tax income.
- A clear indication of what will happen later, after the middle-class relief expires, comes from looking at the capital-gains dividends tax cut which persists.

In tax year 2003, the capital-gains tax cut is worth \$43,000 to millionaires, but only \$46 to households with incomes between \$40,000 and \$50,000.

Only 2% of tax filers have incomes over \$200,000, but they get 64% of the benefits from the capital-gains dividend tax cut.

Only 21% of tax filers within the \$40,000-\$50,000 income group get any thing at all, because so few even have capital-gains or dividend income.

Why is the Tax Cut So Skewed?

The affluent benefit so much because they get most of the capital gains and dividend income in society, and because such a large share of their total income is from capital gains and dividends, which Thomas favors.

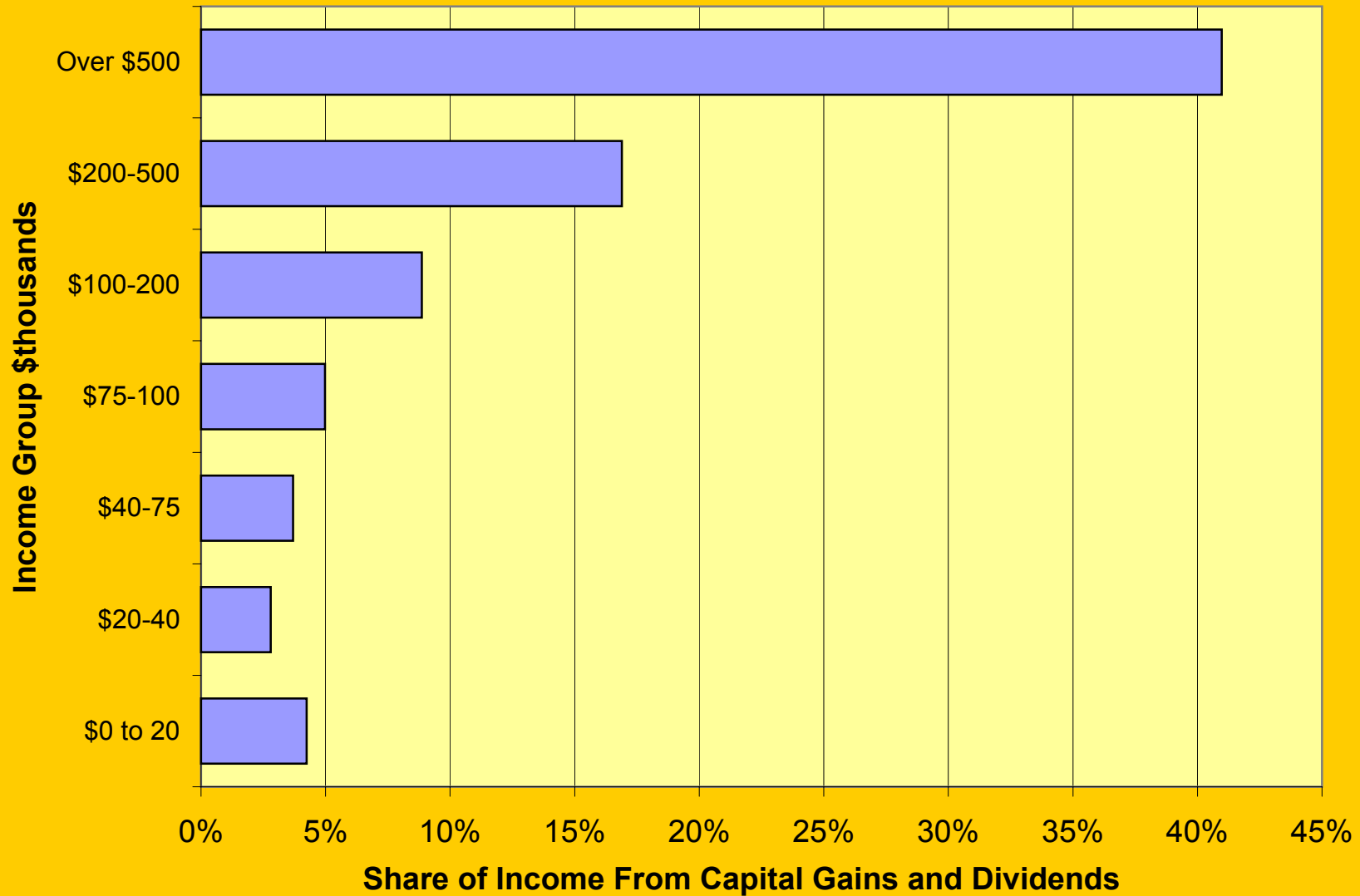
Households with incomes over \$500,000 get 41% of their income from capital gains and dividends, which are favored by the Thomas plan. Households with incomes between \$40,000 and \$75,000 get only 4% of their income from the sources favored by Thomas. (See graph.)

The very affluent have a large share of total capital gains and dividend income even though they are a small share of households. IRS data show that those with incomes over \$500,000 accounted for 57% of all capital gains and dividends, but comprised only 0.5% of taxpayers and accounted for only 17% of income from all sources. The opposite is true for taxpayers with incomes between \$40,000 and \$75,000. They comprised 21% of all taxpayers and accounted for 24% of all income, but only 7% of capital gains and dividends.

Income group year-2000	Share of capital gains and dividends	Share of total taxpayers	Share of Total Income (Adjusted Gross Income)
Over \$500,000	57%	0.5%	17%
\$200,000-500,000	13%	2%	10%
\$100,000-200,000	12%	6%	17%
\$75,000-100,000	5%	7%	11%
\$40,000-75,000	7%	21%	24%
\$20,000-40,000	3%	25%	14%
\$1 to \$20,000	3%	39%	8%

A very high percentage of affluent households have either capital gains or dividend income that is favored under the Thomas plan. This is not true of middle-income households. For example, 94% of households with incomes over \$500,000 have dividends or capital gains. Only 33% of households with incomes between \$40,000 and \$75,000 have dividends or capital gains. (See graph.)

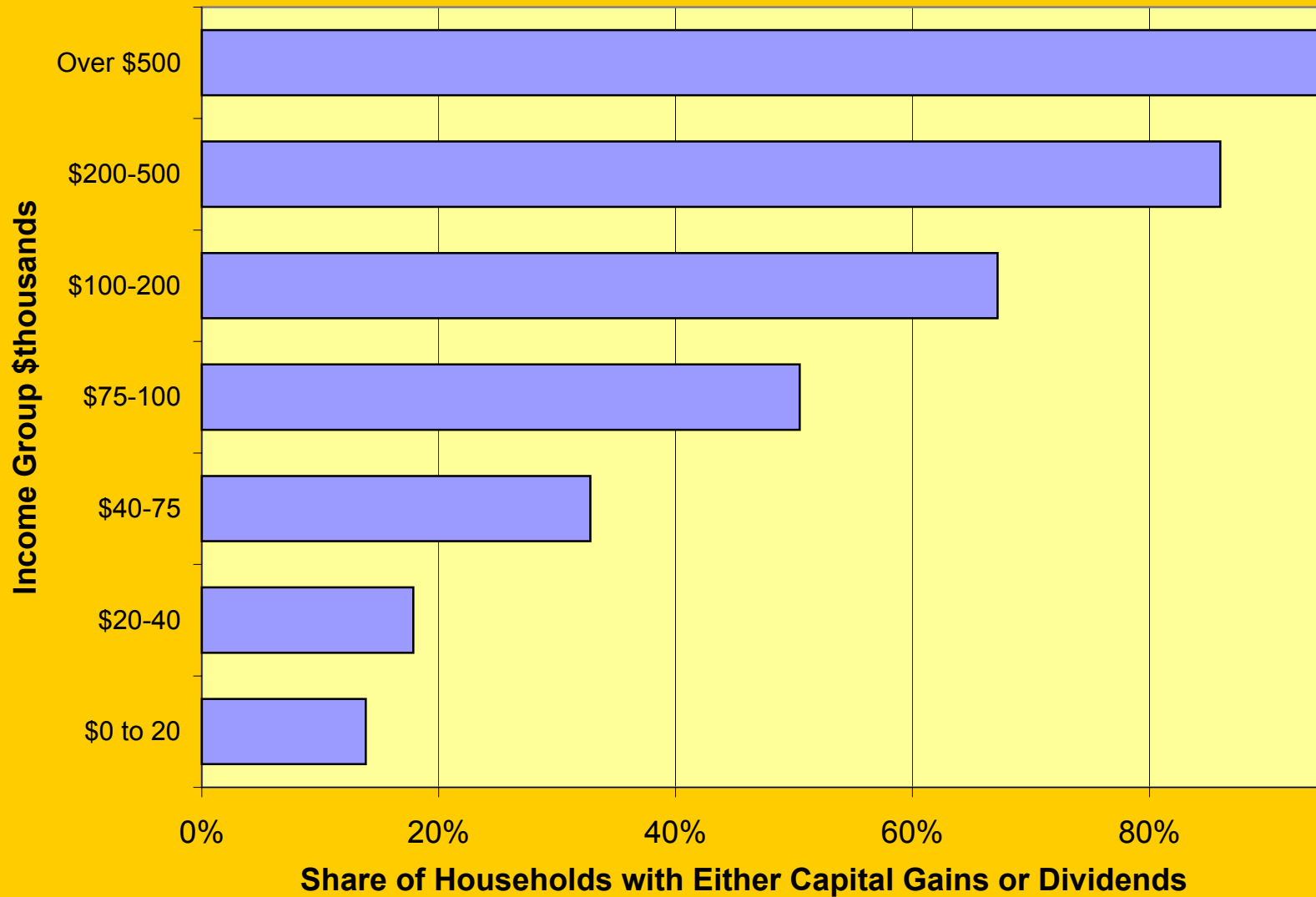
Capital Gains and Dividends Matter the Most to the Affluent Who Therefore Benefit the Most From the Thomas Plan



Source: IRS on 2000 income tax returns

Ways & Means Democratic Staff, 5/1/03

Much Higher Percentages of Affluent Households Have Capital Gains or Dividend Income Than Others



Source: IRS on 2000 income tax returns

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